Assembly Bill 2960

ENERGY PRICE STABILIZATION ACT OF 2006

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ISSUE

Over the past ten years California's dependence on natural gas has crept steadily upward from 33% to 40%. Our increased reliance on this fossil fuel has coincided with both increased price volatility and tightening supplies of natural gas. In fact the current price of natural gas has more than doubled since 2000. More importantly, numerous supply disruptions during that time caused price spikes of four and five times 2000 prices. These price increases and price spikes are all passed on to utility customers in their electricity rates while utility profits remain protected.

California sits at a crossroads. As numerous liquefied natural gas terminals are proposed along the coast, we stand poised to become more dependent on this fuel source, while at the same time ceding more control over fuel supplies to unpredictable foreign states. More careful consideration must be given to any increased procurement of natural gas and the impact that may have on the citizens of California. We must look closely at all alternatives which can provide a secure and stable source of electricity for California's future.

EXISTING LAW

The existing Public Utilities Act (Section 454.5 of the PUC Code) requires the California Public Utilities Commission (CPUC) to review and adopt a procurement plan for each electrical corporation in accordance with specified elements, incentive mechanisms, and objectives.

THIS BILL

The intent of this bill is to increase price stability for California's electricity ratepayers by requiring an examination of the risks inherent in natural gas electricity procurement. Additionally the bill requires investor owned and municipal utilities to first meet all needs for new electricity generation with procurement of renewable resources, creating further price stability for California's rate payers.

SUMMARY

This bill:

- codifies Renewable energy as the second priority in California's 'Loading Order' for procurement of new electricity with utilities first meeting their resource needs with energy efficiency and demand response measures and any need for new generation first being met with renewable energy resources;
- expands the loading order statute to apply to the state's municipal utilities;
- requires examination of utility risk from procurement from natural gas generation and assessment of the natural gas supply forecasts associated with that procurement; and
- requires utilities, in their risk management policy, to consider natural gas price volatility and supply risk and include specific measures of price stability to account for this volatility.

FAQS

What is an electrical corporation procurement plan?

A procurement plan is the apporach an electorical corporation takes to obtain soucrces of electricity to provide its customers. Among other things the procurment plan should include an assessment of the price risk associated with the electrical corporation's portfolio. Utility-retained generation, existing power purchase and exchange contracts, and proposed contracts or purchases under which an electrical corporation will procure electricity must be considered. Electricity demand reductions, and electricity-related products and the remaining open position to be served by spot market transactions are additional factors that need to be assed.

What existing directives push utilities to develop renewables and energy efficiency programs?

The California Energy Commission's 'Loading Order' directs utilities to look first to energy efficiency measures and second to renewable energy when procuring new sources of electricity. Though adopted by the Commission, the renewable energy is not codified as part of the 'Loading Order' in statute. The Renewable Portfolio Standard sets renewable energy targets for the state's investor owned utilities. Currently, the CPUC is aiming for 20% renewable generation by the year 2010.

What kinds of renewables can work to reduce natural gas dependence?

Wind energy and geothermal energy are cost competitive with natural gas generation. Indeed, over the past year these two renewable resources have often been cheaper than natural gas generation per kilowatt-hour. Concentrated solar power technology is also rapidly improving and has been successfully installed on a commercial scale in Europe and the US. Renewable distributed generation such as residential solar panels and fuel cells also reduce the need for new procurement of natural gas generation. All of these technologies are experiencing rapid growth worldwide, but that growth has been muted in the US and California.

BACKGROUND

Despite numerous policy directives from the legislature and administrative agencies, California's public utilities have failed to sufficiently expand their renewable resource procurement. Codifying renewable resources as a part of the state's loading order would add strength in the enforcement of this policy.

While renewable growth has stagnated, natural gas procurement has grown rapidly and any fuel cost increases incurred by utilities are passed on to ratepayers. This takes away a major benefit of renewable resources; renewables have essentially no fuel cost, which creates stability in electricity rates.

In a recent CPUC proceeding assessing the economic viability of replacing steam generators at the San Onofre Nuclear Generating Station, two separate natural gas forecasts were used. The first showed the project was not economically viable. The second forecast showed economic viability and the project was approved. This bill would ensure that natural gas forecasts are used uniformly across all procurement processes.

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OPPOSITION

California Public Utilties Commission

STATUS

- Passed the Assembly Floor 48-31 (concurrence).
- Passed Assembly Committee on Utilities and Commerce 7-1(concurrence).
- Passed the Senate Floor 28-6.
- Passed the Senate Committee on Energy, Utilities and Communications 8-0.
- Passed Assembly Floor on a 45-29 vote.
- Passed Assembly Committee on Appropriations 13-5.
- Passed Assembly Committee on Utilities and Commerce 8-2.

FOR MORE INFORMATION

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